

Message Text

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USDOC FOR MEPD, PHILBRICK; DEPARTMENT PASS EXIM

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SUBJECT: TENDER FOR SIX BKU/PNP SUGAR MILLS

SUMMARY: U.S. BIDDERS EXCLUDED FROM GOI SUGAR TENDER REVIEW COMMITTEE MEETINGS WITH FOREIGN BIDDERS. PRINCIPAL REASON GIVEN FOR EXCLUSION IS EUROPEAN EXPORT CREDIT PACKAGES MORE ATTRACTIVE THAN ANTICIPATED EXIM PACKAGE. EMBASSY ASKS WHETHER EXIM PREPARED CONSIDER INCREASING ITS SHARE ABOVE 40 PERCENT TO MAKE FINANCIAL PACKAGE MORE COMPETITIVE. END SUMMARY.

1. TENDER EVALUATION PROCESS HERE APPEARS HAVE TAKEN DECIDEDLY ADVERSE TURN FOR U.S. BIDDERS. FOUR EUROPEAN BIDDERS (FIVES CAILE BABCOCK (FRANCE), FLETCHER STEWARD (U.K.), A.W. SMITH (U.K.) AND STORK (NETHERLANDS) HAVE BEEN INVITED BY GOI TENDER REVIEW COMMITTEE TO TECNICAL DISCUSSIONS/NEGOTIATIONS INTENDED DETERMINE RESPONSIVENESS TO TENDER SPECS PREPARATORY TO ENTERING FINAL NEGOTIATIONS. NEITHER U.S., BRAZILIAN, INDIAN, NOR GERMAN BIDDERS INVITED TO THESE DISCUSSIONS.

2. DUE SERIOUS ILLNESS SEVERAL KEY GOI OFFICIALS INVOLVED THIS TENDER, EMBASSY HAS ENCOUNTERED CONSIDERABLE DIFFICULTY OBTAINING OFFICIAL EXPLANATION OF U.S. EXCLUSION, AND RUMORS ARE RIFE. E/CM COUNSELOR, HOWEVER,
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FINALLY REACHED BAPPENAS OFFICIAL, ALMATSIR

(ASSISTANT TO SALEH AFFIF AND DIRECTLY RESPONSIBLE FOR SUGAR PROJECTS) ON MARCH 5. HE SAID THAT U.S. WAS PLACED IN SECOND GROUP (NON-INVITED BIDDERS) ON BASIS OF LESS FAVORABLE EXIM CREDIT PACKAGE. HE DENIED BKU/PNP EARLIER REPORT THAT DECISION TO EXCLUDE U.S. BASED ON HIGHER U.S. BID PRICES, BECAUSE HE SAID COMMITTEE AT THIS POINT STILL REVIEWING BIDS FROM TECHNICAL STANDPOINT, INCLUDING ASCERTAINING RESPONSIVENESS TO CALL FOR BIDS, AND PRICE QUESTION WILL COME LATER.

3. ALATSIR ADDED THAT IF FOUR EUROPEAN SUBMISSIONS DETERMINED BE SERIOUS BIDS, THEN THOSE BIDDERS WOULD BE INVITED SECURE FINANCIAL PACKAGES AND SUBMIT FINAL PROPOSALS INCLUDING PRICE. IF ANY OF FOUR DETERMINED NOT RPT NOT BE "SERIOUS" BIDS, THEN BIDDERS FROM SECOND GROUP WOULD BE INVITED FOR DISCUSSIONS. HE AGREED THAT PROCESS AS DESCRIBED IS MORE A NEGOTIATED BID THAN TENDER AWARD. HE HOWEVER FAILED RESPOND WHEN COHN OBSERVED THAT IF DURING DISCUSSIONS/NEGOTIATIONS FIRST FOUR BIDDERS ARE ALLOWED RAISE THEIR BIDS TO COVER COSTS OF ADDING ITEMS EARLIER LEFT OUT, THEN U.S. FIRMS TOO SHOULD BE GIVEN CHANCE MEET COMPETITION BY POSSIBLY LOWERING THEIR PRICES.

4. COMMENT: VERY DIFFICULT AT THIS POINT TO PROJECT WHAT FINAL OUTCOME MAY BE. ALL OF USUAL INDONESIAN UNCERTAINTIES (INCLUDING REPORTED INVOLVEMENT FAMILY MEMBERS OF MINISTER AGRICULTURE AND POSSIBLY PRESIDENT SUHARTO IN INDONESIAN FIRMS REPRESENTING EUROPEAN BIDDERS NOW MEETING WITH GOI COMMITTEE) ARE AT WORK COMPOUNDED BY ABSENCE KEY DECISION MAKERS DUE ILL HEALTH, WHICH WILL FURTHER SLOW DECISION PROCESS. AT LEAST KATY FULTON HAS VERY HIGH TECHNICAL RATING, AND WE UNDERSTAND ARKEL'S BID ALSO RESPONSIVE TO ORIGINAL SPECS. IF WHAT WE HAVE BEEN TOLD IS ACCURATE AND FIRST FOUR EUROPEAN BIDDERS ARE FORCED TO FLESH-OUT THEIR RATHER ABBREVIATED PROPOSALS, THEIR BID PRICES SHOULD COME UP SUBSTANTIALLY IN DIRECTION OF TWO U.S. BIDS. BUT FINANCING TERMS OF GOVERNMENTAL BUYERS CREDITS WILL CONTINUE TO BE CRITICAL FACTOR.

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5. ACCORDING ALMATSIR, REVIEW COMMITTEE OMITTED U.S. BIDDERS FROM CURRENT DISCUSSIONS ON BASIS BAPPENAS' KNOWLEDGE OF "USUAL EXIM TERMS AND CONDITIONS FOR INDONESIA." ONLY SOME CHANGE IN THOSE TERMS OR CONDITIONS SEEMS LIKELY GIVE U.S. FIRMS SERIOUS CHANCE COMPETE. WE HAVE BEEN TOLD BY VARIOUS GOI AND PRIVATE U.S. SOURCES THAT SIGNIFICANT ADVERSE COMPETITIVE FACTOR

IN GOI VIEW IS EXIM'S FORTY PERCENT DIRECT PARTICIPATION
IN U.S. EXPORT VALUE, WHICH COMPARES UNFAVORABLY WITH
EUROPEAN 80-85 PERCENT COVERAGE. EMBASSY RECALLS THAT
EXIM MODIFIED ITS POLICY TOWARD INDONESIA AT GOI
REQUEST ON THIS SCORE ON DOMSAT CREDIT BY LOWERING ITS
PARTICIPATION TO 35 PERCENT --ADMITTEDLY FOR DIFFERENT
REASONS, AND DURING CRAFTON AND WICKETT MEETING WITH GOI
FINANCIAL AUTHORITIES, EXIM TEAM SAID THAT ONLY WAY
IN WHICH EXIM MAY BE MORE COMPETITIVE IS THROUGH EITHER
INCREASED PERCENTAGE OF DIRECT PARTICIPATION OR TIME
PERIOD OF CREDIT. IF EXIM WOULD BE WILLING CONSIDER
PC (WE UNDERSTAND THAT AT LEAST FULTON, IF NOT
ARKEL HAS HAD INFORMAL DISCUSSIONS WITH EXIM ABOUT
POSSIBLE PC UNDER NEW POLICY) WITH SAY 45 TO 50 PERCENT
PARTICIPATION, WE BELIEVE GOI MIGHT BE FORTHCOMING.
AMBASSADOR PREPARED DIRECTLY QUERY MINISTERS
CONCERNED ON CURRENT EXCLUSION OF U.S. FIRMS FROM
NEGOTIATIONS IF EXIM WOULD BE WILLING PROVIDE PC WHICH
INCLUDED HIGHER PARTICIPATION. WE JUDGE IT TO BE UNWISE,
HOWEVER, TO MAKE SUCH DEMARCHE IF EXIM CANNOT OFFER MORE
COMPETITIVE TERMS. IN SUCH CASE GOI WILL CLEARLY
RESERVE ITS REQUESTS FOR EXIM'S MORE EXPENSIVE FUNDING
TO THOSE PROJECTS AND EQUIPMENT IN WHICH U.S. SUPPLIERS
HAVE UNIQUE QUALITIES, IN TERMS OF TECHNOLOGY AND/OR
QUALITY. PLEASE ADVISE ON URGENT BASIS.
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